

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA**

**DOCKET NO. 2018-319-E**

In the Matter of:	)	
	)	<b>REBUTTAL TESTIMONY</b>
Application of Duke Energy Carolinas, LLC	)	<b>DAVID L. DOSS JR.</b>
For Adjustments in Electric Rate Schedules	)	<b>FOR DUKE ENERGY</b>
and Tariffs and Request for Accounting Order	)	<b>CAROLINAS, LLC</b>

---

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is David L. Doss Jr. and my business address is 550 South Tryon  
4 Street, Charlotte, North Carolina.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Duke Energy Business Services, LLC, a service company  
7 affiliate of Duke Energy Carolinas, LLC (“DE Carolinas” or the “Company”),  
8 as Director of Electric Utilities and Infrastructure Accounting. DE Carolinas is  
9 a subsidiary of Duke Energy Corporation (together with its subsidiaries “Duke  
10 Energy”).

11 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**  
12 **PROCEEDING?**

13 A. Yes, I did.

14 **II. PURPOSE AND SUMMARY**

15  
16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

17 A. The purpose of my rebuttal testimony is to respond to portions of the testimony  
18 filed by South Carolina Energy Users Committee (“SCEUC”) witness Kevin  
19 O’Donnell regarding the appropriate accounting for retirement obligations  
20 related to coal ash. I will explain that DE Carolinas followed applicable  
21 accounting guidance in establishing the Asset Retirement Obligation (“ARO”) for coal ash closure costs. Witnesses Kerin and Wright will further address why  
22 the timing of the Company’s coal ash cost recovery request is appropriate.  
23

1                                    **III. COAL ASH EXPENSE ACCOUNTING**

2    **Q.    PLEASE    SUMMARIZE    SCEUC    WITNESS    O'DONNELL'S**  
3                    **RECOMMENDATIONS REGARDING COAL ASH COSTS AND THE**  
4                    **RELATED ACCOUNTING TREATMENT.**

5    A.    Witness O'Donnell argues that knowledge of potential coal ash closure costs  
6           were well known throughout the industry in earlier years dating back to 1981;  
7           however, Duke did not establish ARO associated with coal ash management  
8           until 2014 upon promulgation of North Carolina's Coal Ash Management Act  
9           ("CAMA") and the Federal Coal Combustion Residuals ("CCR") Final Rule.  
10          Therefore, Witness O'Donnell recommends a \$46.7 million disallowance.

11   **Q.    DO YOU AGREE WITH SCEUC WITNESS O'DONNELL'S POSITION**  
12                    **THAT THE COMPANY DID NOT PROPERLY ACCOUNT FOR COAL**  
13                    **ASH COSTS?**

14   A.    No. The Company was required to (and did) adhere to and apply the accounting  
15           guidance under Generally Accepted Accounting Principles ("GAAP") and  
16           Federal Energy Regulatory Commission ("FERC") Code of Federal  
17           Regulations ("CFR") for appropriate ARO accounting. The Company  
18           appropriately began its ARO accounting for coal ash costs upon becoming  
19           subject to certain legal obligations that triggered the ARO accounting  
20           requirements, as I explain further below.

1   **Q.     BEFORE EXPLAINING THE ACCOUNTING GUIDANCE, PLEASE**  
2           **TELL US WHAT TRIGGERED THE GAAP AND FERC GUIDANCE**  
3           **THAT THE COMPANY IS REQUIRED TO FOLLOW WITH RESPECT**  
4           **TO ITS COAL ASH BASINS.**

5   A.    The Company evaluated GAAP and FERC guidance in light of the legal  
6           obligations imposed upon it by CAMA, which was originally enacted in 2014,  
7           the consent agreement (“Consent Agreement”) entered into between the  
8           Company and the South Carolina Division of Health and Environmental  
9           Control (“SC DHEC”), and the CCR Rule, which was promulgated in 2015.  
10          The Company determined that the coal ash basins it operated at its coal-fired  
11          generating facilities needed to be closed as a result of the passage of CAMA,  
12          the Consent Agreement and/or the CCR Rule. The closure obligations triggered  
13          ARO accounting requirements.

14   **Q.     WHAT GAAP REQUIREMENTS MUST DE CAROLINAS FOLLOW IN**  
15           **CONNECTION WITH COAL ASH BASIN CLOSURE?**

16   A.    Statement of Financial Accounting Standard (“SFAS”) No. 143 (now codified  
17           as ASC 410) was effective for and implemented by the Company in 2003 for  
18           financial reporting purposes. This guidance requires recognition of liabilities  
19           for the expected cost of retiring tangible long-lived assets for which a legal  
20           retirement obligation exists. GAAP (in ASC 410-20-20) refers to these costs as  
21           an “Asset Retirement Obligation” or an ARO, and defines a “legal obligation”  
22           as an “obligation that a party is required to settle as a result of an existing *or*  
23           *enacted* law, statute, ordinance, or written or oral contract....” (Emphasis

1 added). The Consent Agreement, CAMA and the CCR Rule each qualifies as  
2 an “enacted law or contract” under this guidance, and upon enactment the  
3 Company incurred a legal obligation related to the retirement of its coal ash  
4 basins. In ASC 410-25-4, GAAP requires that “an entity shall recognize the  
5 fair value of a liability for an asset retirement obligation in the period in which  
6 it is incurred if a reasonable estimate of fair value can be made.” In accordance  
7 with GAAP, the Company recorded AROs for the coal ash basin closure costs  
8 in the year in which the applicable law or contract was enacted, which was 2014  
9 for the Consent Agreement and CAMA, and 2015 for the CCR Rule. SCEUC  
10 witness O’Donnell seems to suggest in his testimony that the Company should  
11 have established AROs prior to the existence of a legal retirement obligation,  
12 which would have been in direct violation of GAAP. A copy of the relevant  
13 GAAP guidance is attached to my testimony as Doss Rebuttal Exhibit 1.

14 **Q. IN ADDITION TO THE ACCOUNTING REQUIREMENTS UNDER**  
15 **GAAP, ARE THERE FERC ACCOUNTING REQUIREMENTS THAT**  
16 **DE CAROLINAS MUST FOLLOW?**

17 A. Yes. In addition to being required to follow GAAP, DE Carolinas is regulated  
18 by FERC which requires the use of the FERC Uniform System of Accounts,  
19 which states:

20 (A) An asset retirement obligation represents a liability for the legal  
21 obligation associated with the retirement of a tangible long-lived asset that a  
22 company is required to settle as a result of an existing or enacted law, statute,  
23 ordinance, or written or oral contract or by legal construction of a contract

1 under the doctrine of promissory estoppel. An asset retirement cost  
2 represents the amount capitalized when the liability is recognized for the  
3 long-lived asset that gives rise to the legal obligation. The amount recognized  
4 for the liability and an associated asset retirement cost shall be stated at the  
5 fair value of the asset retirement obligation in the period in which the  
6 obligation is incurred.

7 This FERC guidance is consistent with the GAAP guidance that the  
8 Company followed in its accounting for coal ash basin closure costs, as  
9 described above. SCEUC witness O'Donnell seems to suggest in his testimony  
10 that the Company should have established AROs prior to the existence of a legal  
11 retirement obligation, which would have been in direct violation of the FERC  
12 Uniform System of Accounts.

13 **Q. ARE THERE INDEPENDENT AUDITS PERFORMED ON THE**  
14 **COMPANY'S ACCOUNTING AND FINANCIAL REPORTING,**  
15 **INCLUDING THE ACCOUNTING FOR ASSET RETIREMENT**  
16 **OBLIGATIONS?**

17 A. Yes. The Company's auditors Deloitte & Touche LLP perform the annual audit  
18 of the Company's financial statements. Deloitte & Touche has issued its  
19 opinion that the financial statements are presented fairly, in all material respects,  
20 in conformity with U.S. GAAP standards. Deloitte & Touche also performs a  
21 review of the FERC Form 1 and issues its opinion that the regulatory basis  
22 financial statements are presented fairly, in all material respects, in conformity  
23 with the FERC Uniform System of Accounts. Finally, Deloitte & Touche also

1 issues an opinion on internal controls that states that Duke Energy Corporation  
2 maintained, in all material respects, effective internal control over financial  
3 reporting.

4 **IV. CONCLUSION**

5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 A. Yes.